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October 23, 2002

Via Federal Express

KPOW 76496

Mr. Aster Rutibabalira
Chief, Economic Analysis Division
Tennessee Regulatory Authority
460 James Roberson Parkway
Nashville, TN 37243-0505

**Re: Kingsport Power Company – Application Requesting Findings Under 15 U.S.C. §79z-5a(c) and Representations Under Securities and Exchange Commission Policy
TRA Docket No. 02-00190**

Dear Mr. Rutibabalira:

Thank you for meeting with me and other representatives of Kingsport Power Company (KgPCo) on Tuesday, October 8, 2002. We appreciate the opportunity to meet with the Staff to discuss the above-referenced application and the two data requests contained in your August 30, 2002 letter. As we mentioned at our meeting, KgPCo is committed to keeping the lines of communication open between the Staff and company personnel.

During our October 8 meeting, we provided the Staff with an eight-page handout regarding our exempt wholesale generator (EWG) application and copies of three documents, which contain the required findings recommending EWG status from the Commonwealth of Virginia and the states of Indiana and Texas. We also agreed to provide three additional pieces of information. The Company has asked me to forward that information to you.

Enclosed please find two attachments. Attachment 1 is a summary of the energy requirements and the related generation supply cost profile of Appalachian Power Company (APCo), under both the current 5-company Pool and the 3-company Pool recently approved by the FERC on September 26, 2002, over a projected five-year period. As you know APCo supplies power to KgPCo at cost-based rates approved by the Federal Energy Regulatory Commission (FERC). The information on this attachment demonstrates

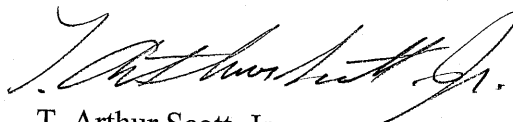
that APCo's projected net supply costs under the recently approved 3-company Pool are comparable to those under the current 5-company Pool.

Attachment 1 also shows the level of market purchases projected to be made by the 3-company Pool -- between 1-2% of the total native load energy requirements (which includes Kingsport) -- over the next few years (see "Purchases" under the Gwh summary). Finally, Attachment 2 is a copy of the Public Utilities Commission of Ohio decision regarding EWG status, which was issued on October 17, 2002.

KgPCo understands that providing the information attached here, as well as that passed out at our October 8, 2002 meeting, satisfies the data requests contained in your August 30, 2002 letter. Please let me know if the Staff needs anything further.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP



T. Arthur Scott, Jr.

Enclosures

cc: James Bacha
Barry Thomas

PRIVILEGED SETTLEMENT DOCUMENT

AEP EAST: 5 Co. vs. 3 Co. Pool Comparison

APCo

PER AEP's FERC SETTLEMENT AGREEMENT

5 Company Pool	2002	2003	2004	2005	2006
Supply Costs less Pool/OSS Revenues (\$ millions):					
Costs:					
Fuel (151)	398	438	431	443	484
Var. O&M	45	88	88	89	96
Rockport Demand	-	-	-	-	-
External Purchases (excl. capacity)	3	4	5	6	11
Capacity	3	2	4	5	5
Prim. Ener. Rec. less Deliv.	88	62	89	90	84
Capacity Settlement	103	109	111	103	104
	638	701	725	737	784
Revenue:					
Capacity Settlement	-	-	-	-	-
Off Sys. Sharing, "0" = transfer from E. to W.	(5)	2	4	6	10
Off Sys. Sales Margin	121	99	84	78	68
Off Sys. Sales Cost Recov.	79	84	82	74	69
	194	185	170	158	145
NET, 0 = cost	(444)	(516)	(555)	(580)	(619)
GWh:					
Generation	33,297	36,102	34,545	34,922	35,794
Purchases	93	142	173	198	284
Prim. Ener. Rec. less Deliv.	7,299	4,812	6,846	6,323	5,552
Off System Sales	(5,541)	(5,150)	(4,704)	(4,015)	(3,575)
Other	-	-	-	-	-
NET	35,149	35,906	36,860	37,428	38,055
Expanded Net Energy Cost (m/kwh)	12.84	14.38	15.13	15.48	16.27
Net Energy Cost (m/kwh), excl. capacity	11.82	11.71	12.09	12.46	12.88

3 Company Pool

3 Company Pool	2002	2003	2004	2005	2006
Supply Costs less Pool/OSS Revenues (\$ millions):					
Costs:					
Fuel (151)	401	449	434	447	487
Var. O&M	44	83	87	95	97
Rockport/PMA Demand	14	14	14	14	14
External Purchases (excl. capacity)	11	18	13	15	21
Capacity	0	-	2	1	3
Prim. Ener. Rec. less Deliv.	120	56	117	118	109
Capacity Settlement	-	-	-	-	-
	590	619	666	690	711
Revenue:					
Capacity Settlement	-	-	-	-	-
Off Sys. Sharing, "0" = transfer from E. to W.	(0)	1	(0)	(0)	0
Off Sys. Sales Margin	26	29	13	16	12
Off Sys. Sales Cost Recov.	103	100	100	95	89
	128	129	113	111	101
NET, 0 = cost	(481)	(490)	(554)	(579)	(610)
GWh:					
Generation	32,818	36,169	34,195	34,870	35,865
Purchases	364	704	477	544	729
Prim. Ener. Rec. less Deliv.	8,721	4,745	7,528	7,169	6,352
Off Sys. Sales	(6,554)	(5,712)	(5,540)	(5,155)	(4,890)
Other	-	-	-	-	-
NET	35,149	35,906	36,860	37,428	38,055
Expanded Net Energy Cost (m/kwh)	13.13	13.85	15.11	15.48	16.04
Net Energy Cost (m/kwh), excl. capacity	12.20	11.76	12.65	12.66	13.35

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Power Company and Columbus Southern Power Company for Certain Findings Under 15 U.S.C. § 79Z and 17 CFR § 250.53.) Case No. 01-3289-EL-UNC

FINDING AND ORDER

The Commission finds:

- (1) On December 21, 2001, Applicants, Ohio Power Company ("OPCO") and Columbus Southern Power Company ("CSP") (Collectively "Applicants"), wholly owned subsidiaries of American Electric Power Corp. ("AEP"), filed an application ("Application") requesting the Commission to: (a) make certain findings pursuant to the Public Utilities Holding Company Act of 1935 ("PUHCA") for the conversion of Applicants to one or more Exempt Wholesale Generator ("EWGs") entities, and (b) authorize the increase of Applicants' investment authority for EWGs and Foreign Utility Company ("FUCO") investments, as described in the Application and Exhibits.
- (2) Under the provisions of PUHCA, Applicants are required to apply to the Commission for a determination that allowing those generating plants, as listed in Exhibit 1 to the Application, to become "Eligible Facilities" will benefit consumers, is in public interest and does not violate Ohio law. "Eligible facility" status is a prerequisite to the Applicants seeking EWG status from the Federal Energy Regulatory Commission ("FERC") under PUHCA.
- (3) Applicants state that in accordance with Amended Substitute Senate Bill ("SB3"), a transition plan (the "Plan") was filed in Case Nos. 99-1729-EL-ETP (CSP) and 99-1730-EL-ETP (OPCO) that included a corporate separation plan. The Plan was approved by this Commission on September 28, 2000. The Plan, among other things, requires Applicants to transfer their electric transmission and distribution assets and obligations to newly formed utilities which will continue to provide regulated service for distribution to retail customers
- (4) CSP and OPCO will be the entities seeking EWG status from the FERC. A EWG is a special purpose company under federal law, certified by the FERC, dedicated to owning and/or operating electric generating facilities, all of whose power may only be sold in the wholesale market.
- (5) In order for the FERC to make that determination under PUHCA, the state commission having jurisdiction over the rates

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and charges associated with the facility to be owned or operated by the EWG must find that allowing the facility to be an "eligible facility" will benefit the consumers, is in the public interest, and does not violate state law (PUHCA Section 32 (C)).

- (6) Applicants state that the proposed conversion to EWGs will benefit Ohio consumers by permitting compliance with legislative policies; create a robust competitive market which will be in public interest; will benefit retail customers as a result of greater availability of generation in an effective wholesale electricity market and improve reliability and availability of electric service, as described in their Application.
- (7) On February 12, 2002, The Ohio Consumers' Council ("OCC") filed a motion to deny the Application or, in the alternative, motion for a hearing and motion to intervene. On March 4, 2002, Applicants filed their memorandum contra ("Memorandum Contra") OCC's motion. On March 12, 2002, OCC filed its reply to Applicants' memorandum contra.
- (8) On May 13, 2002, Industrial Energy Users-Ohio ("IEU") filed its motion to dismiss and request for other relief and memorandum in support.
- (9) On May 21, 2002, Applicants filed a motion for extension of time to file memorandum contra IEU's motion. On May 23, 2002, an Entry issued by the Attorney Examiner granted Applicants' request for an extension, until June 12, 2002, to file their memorandum contra.
- (10) On June 7, 2002, IEU filed a motion to intervene and memorandum in support of its motion. On June 12, 2002, Applicants filed a memorandum contra IEU's motion to dismiss and request for other relief and IEU's motion to intervene. On June 21, 2002, IEU filed a reply to Applicants' memorandum contra. The motions and replies filed by OCC and IEU will hereinafter collectively be called the "Motions".
- (11) The primary areas of contention presented in the Motions filed by OCC and IEU and Applicants' memorandum contra are as follows:
 - (a) OCC contends that SB3 did not require or contemplate EWG status for the Applicants' current generation plants that are rate-based facilities. SB3 required electric public utilities to operate under corporate separation plans if the utilities were in the business of supplying competitive retail electric service along with non-competitive retail electric service.

Applicants contend that SB3 imposed the provider of last resort obligation on electric distribution utilities ("EDU") and the Commission does not regulate the source or price of the power needed to meet that obligation. Applicants also contend that OCC is mistaking the EDU's obligation for state regulation of generation. SB3 does not require restructuring or divestiture of generating assets held by incumbent utilities. The provisions of SB3 are intended to encourage generation supplier diversity and to curb the potential market power of incumbent utilities. Although SB3 neither required nor contemplated EWG status for the competitive generation business, it also did not preclude such conversion. Therefore, the Commission is of the opinion that OCC's argument in this regard is without merit.

- (b) OCC claims that when the rate caps are eliminated, AEP could charge "market based rates" to its customers even when there is no established retail market. IEU is concerned about the immaturity of the wholesale market, the lack of shopping opportunities, and Applicants' failure to transfer control of their transmission system to a fully functional Regional Transmission Organization ("RTO"). IEU also cautions the Commission to make sure that EWG status does not facilitate AEP gaining market power.

Applicants claim that a wholesale market must exist for retail markets to flourish. Applicants claim that separating Applicants' non-competitive wires business from their competitive generation business will enable them to devote the generating assets to the wholesale market. Applicants claim that an efficient wholesale market will help Ohio's retail market to be more robust at the end of the Market Development Period ("MDP"), i.e., December 31, 2005. Applicants also contend that OCC's concerns regarding EWGs' impact on customers after the MDP are speculative.

OCC claims that AEP could charge "market based rates" to its customers even when there is no established retail market. However, OCC fails to recognize the fact that the establishment of wholesale market is one of many components essential for establishing a robust retail market in Ohio after the MDP. The Commission is of the opinion that the proposed conversion to EWGs would facilitate Applicants to separate their non-competitive wires business from their competitive

generation business and will enable AEP to devote its generating assets to the wholesale market.

Furthermore, SB3 has provisions in place to protect electric customers from market power abuse, and it provides an assurance that an established retail market will be a necessity before "market based ratemaking" is imposed.

The FERC (Docket No. EL02-65-000-008) granted AEP conditional authority to join PJM Interconnections as its RTO. PJM is currently the country's only fully functional RTO and operates in all or part of seven states and the District of Columbia. Therefore, IEU's concern that the Applicants did not keep up to their commitment to transfer their transmission assets to an RTO is moot.

- (c) According to OCC and IEU, Applicants' corporate separation plan (SP) did not specify the conversion of Applicants' generation facilities to EWGs. Therefore, OCC and IEU contend that Applicants' request for conversion is an amendment to its SP and request the Commission to dismiss the Application. Applicants contend that seeking EWG status cannot be considered as amending the SP. Applicants state that even if seeking EWG status is construed as an amendment to its corporate separation plan, the Commission can approve such amendment without a hearing.

The Commission does not believe that Applicants' seeking EWG status conflicts with their SP. Therefore, an amendment is unnecessary. The MDP is intended to create conditions necessary for the establishment of a retail market for electricity. If Applicants are to undertake the restructuring contemplated by SB3, the separation of the non-competitive wire business from competitive generation as proposed by Applicants has to occur before the end of MDP. The Commission finds that allowing Applicants to convert to EWG will accomplish that end and is consistent with the corporate separation requirements of SB3. Further, the Commission believes that allowing Applicants to convert their generation to EWGs will be conducive to the creation of a robust retail market which will ultimately benefit the Companies' retail customers. Therefore, the Commission is of the opinion that the argument put forth by OCC and IEU that Applicants'

conversion proposal is an amendment to Applicant's SP is without merit.

- (12) The transaction to separate the generation units from the operating companies is being implemented in accordance with the transition plans of the Applicants, as approved by this Commission. Further, Section 4928.17(E), Revised Code, provides that "an electric utility may divest itself of any generating asset at any time without Commission approval." In addition, the corporate separation requirement of SB3 was one element of the overall policy of the legislation to provide competitive electric services for the benefit of customers and the economy of the state. Therefore, it is clear that a determination allowing the plants to be eligible facilities will benefit consumers, is in the public interest, and does not violate Ohio law.
- (13) Based on the above discussion, the Commission is not persuaded to dismiss Applicants' request or alternately grant a hearing in this proceeding. Therefore, the motions to intervene, to dismiss, or to grant a hearing in this proceeding as filed by OCC and IEU should be denied.
- (14) To the extent the conversion of the assets of certain AEP affiliates, including Applicants, into EWGs described hereinabove is considered incremental investment by AEP in EWGs, AEP has filed an Amended Application or Declaration on Form U-1 with the Securities and Exchange Commission ("SEC"). The Form U-1 generally seeks SEC approval to restructure the assets of Applicants into EWGs.
- (15) Applicants also request that the Commission advise the SEC that the Commission is aware of AEP's request and certifies that, if the SEC approves AEP's request, the Commission has the authority and jurisdiction to protect Applicants' Ohio ratepayers and that the Commission intends to exercise such authority, as described in the Application and Exhibits.
- (16) Applicants are put on notice that the Commission will continue to monitor transactions authorized in this proceeding in order to assure the Commission that these transactions will not adversely affect Ohio regulated entities in any manner.
- (17) The Commission is of the opinion that Applicants' request for conversion to EWGs and request for an increase in their investment authority for EWGs and FUCOs should be granted.
- (18) As a condition of this approval, the Commission will require Applicants to file reports as soon as practicable, after the transactions authorized in this proceeding are consummated.

These reports must, at a minimum, include information relating to Applicants' conversion to EWGs and investments in EWGs and FUCOs.

- (19) Additionally, as a condition of this approval Applicants will be required to provide to Staff quarterly reports, including but not limited to, the aggregate amounts of Applicants' investment in EWGs and FUCOs, their nature and background, status of their investments on a current and cumulative basis, and include all other relevant information relating to Applicants' investments in EWGs and FUCOs.
- (20) As a condition of this approval, AEP and Applicants will be required to report to the Commission in the event of a decline in Applicants' senior bond rating by a major credit rating agency (e.g., Standard and Poor's or Moody's Service) that is attributable to such investments. AEP and Applicants should provide notice to the Commission staff within twenty (20) days of the date on which such rating change occurs. Such notice should also include a detailed explanation of the reasons the downgrading occurred and the plans to address and restore the previous credit rating. AEP and Applicants should also discuss their plans to ensure that there are no negative effects on Ohio ratepayers.

If for any reason, Applicants' senior bond rating should fall below BBB- as rated by S&P or below Baa3 as rated by Moody's, AEP and Applicants shall be required to take steps to restore the senior bond rating to at least BBB- or Baa3. Under such circumstances, Applicants should submit a plan within twenty (20) days with the Commission's staff detailing the steps they intend to undertake to maintain or restore the senior bond rating to at least BBB- or Baa3 and a commitment to adhere to such plan, to the extent consistent with regulation by the Commission, the SEC under PUHCA and the FERC, together with any reasonable modifications advanced by the Commission.

- (21) Applicants in their Application/Declaration Form U-1 (Amendment No. 3 to SEC Form U-1, File No. 70-9785, Item No.1, E-3) state that their existing and proposed investments in EWGs and FUCOs will not have an "adverse impact" on their utility subsidiaries, their customers, or on the ability of the state commissions to protect such utility subsidiaries or such customers.

Applicants claim that this conclusion is supported by (a) the insulation of AEP's utility subsidiaries and their customers from potential direct adverse effects of AEP' investments in EWGs and

FUCOs; (b) the effects of utility regulation restructuring in Texas and Ohio, including certain retail rate caps, an imposed rate freeze and the opening of the energy supply business to retail customer choice; (c) AEP's current financial health; and (d) the proven effectiveness of state commission's oversight over AEP's utility subsidiaries

Applicants further state that all of the AEP investments in EWGs and FUCOs are, and in the future will remain, segregated from its utility subsidiaries. Any losses that may be incurred by such utility subsidiaries would have no effect on the rates of AEP even after the rate caps and rate freezes now in effect expire. AEP represents that it will not seek recovery through higher rates from the customers of AEP's utility subsidiaries in order to compensate AEP for any possible losses that it or any subsidiary may sustain on the investment in EWGs and FUCOs or for any inadequate return on such investments.

- (22) To the extent there may be indirect impacts on Ohio regulated utilities from AEP's EWG and FUCO investments through effects on its capital costs, this Commission has broad discretion among other things to set the cost of capital for the utilities subject to its jurisdictions by a variety of accepted means and is free to exclude any adverse impacts due to EWGs and FUCOs in any future proceedings or investigation involving the justness or reasonableness of any rate, charge, rule or regulation of the Ohio regulated utilities.

It is, therefore,

ORDERED, That the Application for the conversion of Applicants, Ohio Power Company and Columbus Southern Power Company, to one or more Exempt Wholesale Generator entities and for a determination that allowing the generating plants, as listed in Exhibit 1 to the Application, to be eligible facilities under the PUHCA will benefit consumers, is in the public interest, and does not violate Ohio law. It is, further,

ORDERED, That Applicants are also authorized to increase their investment authority in Exempt Wholesale Generator entities and Foreign Utility Company investments, as described in the Application and Exhibits. It is, further,

ORDERED, That Applicants shall provide reports, as soon as practicable, after the transactions authorized in this proceeding are consummated and shall, at a minimum, include information relating to Applicants' conversion to EWGs and investments in EWGs and FUCOs. It is, further,

ORDERED, That Applicants shall provide the Commission quarterly reports, including but not limited to, aggregate amount of Applicants' investment in EWGs and

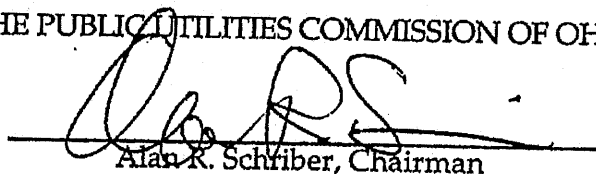
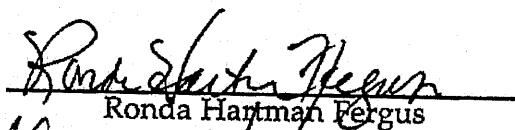
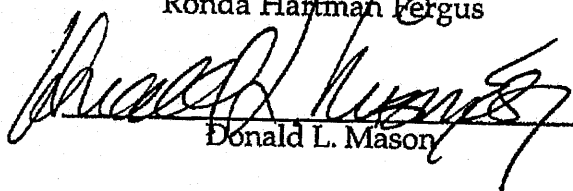
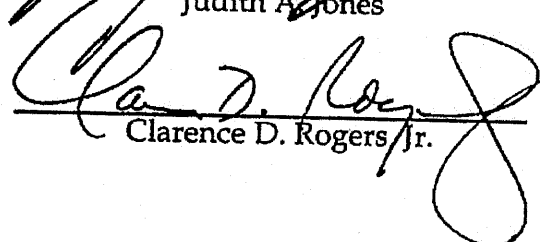
FUCOs, their nature and background, status of their investments, on a current and cumulative basis, and include all other relevant information. It is, further,

ORDERED, That Applicants shall report to the Commission any decline in their senior bond rating by a major rating agency and their plans to address and restore their senior bond rating as enumerated in Finding No. 20. It is, further,

ORDERED, That Ohio regulated utilities shall not be allowed to recover any losses resulting from Applicants' conversion to EWGs and investments in EWGs and FUCOs in any future proceedings or investigation involving the justness or reasonableness of any rate, charge, rule or regulation of the Ohio regulated utilities. It is, further,

ORDERED, That a copy of this Finding and Order be served upon all parties of record.

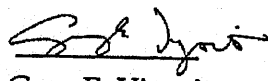
THE PUBLIC UTILITIES COMMISSION OF OHIO


Alan R. Schriber, Chairman
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SUM:sm

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OCT 17 2002


Gary E. Vigorito
Secretary